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DEPT PASS USTR FOR LILIENFELD AND KLEIN  
DEPT PASS OPIC FOR ZAHNISER  
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SUBJECT: AFGHANISTAN: UPDATE ON ENERGY PROJECTS - FUEL SHORTAGE AND  
OTHER SETBACKS DOMINATE RECENT NEWS

11. (SBU) Summary. Lackluster progress and recent setbacks in the energy sector underscore the difficulties of working in Afghanistan. In particular, critical lack of Afghan government planning and possible corruption, combined with very limited discretionary resources and competing demands, have hampered the acquisition of diesel fuel needed for operation of the country's 390 MW of thermal electric power generation facilities through the rapidly approaching winter. Owing to non-performance of a civil works subcontractor, the US-financed 100 MW power plant in Kabul is delayed and is now scheduled to come online in stages in mid-January and end-February. Notable progress in the effort to attract Independent Power Producers to Afghanistan was tempered by implementation delays in existing rehabilitation, regulatory, and energy import initiatives. Several such projects are approaching their final stages. Despite setbacks, Post maintains its focus on project execution with the aim of doubling electricity availability by June 2009 - energy which is needed to create jobs and improve standards of living. End Summary.

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FUEL SAGA AT FOREFRONT - CLOUDED  
BY LACK OF TRANSPARENCY  
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12. (SBU) After weeks of speculation and multiple informal pleas for fuel assistance, the Government of the Islamic Republic of Afghanistan on October 9 formally requested \$97 million from the USG to purchase fuel for its diesel power plants this winter, including the USAID-funded 100 MW plant being built in Kabul. Revised calculations provided by the USAID-funded Afghanistan Infrastructure Rehabilitation Program (AIRP) contractor Louis Berger Group/Black & Veatch Joint Venture (LBG/B&V JV) noted that real requirements were probably much lower, in the \$20 to \$30 million range. The LBG/B&V JV estimate discounted the usage of older, inefficient, and smaller

thermal generators.

13. (SBU) Rumors and misinformation circulated around the fuel issue. Within the GIROA, Minister of Economy Shams repeatedly "cried wolf", telling international donor agencies that Kabul would run out of fuel by mid-October. Other officials said the GIROA had "found" sufficient funds to power the Kabul Northwest power station, on a conservative generation schedule, until mid-December. Then Minister of Energy and Water Khan told Parliament that Kabul electricity consumers would enjoy 24/7 electricity by the end of December - an impossible promise given the fuel shortages. Similar uncertainty attended claims about fuel supplies in the South. The most accurate barometer of the fuel situation in Afghanistan has been Minister of Finance Ahady. In a mid-October meeting with A/S Boucher in Washington, the minister confirmed that \$20 to \$30 million in additional fuel funding would be sufficient for the winter, corroborating the LBG/B&V JV estimate. What's not in doubt is that rationing has already begun: Embassy local employees report that many Kabulis now enjoy only four hours of electricity in every 72 hours.

14. (SBU) In response to the GIROA's formal request, the Ambassador approved up to \$28 million to procure fuel, which covers the estimated cost of powering the USAID-funded 100 MW Kabul plant through the end of March. (Note: Even less will now be needed in view of project start-up delay -- see below.) The \$28 million will be reduced from the USG's planned FY 09 contribution to the ARTF, in effect requiring the GIROA to use this portion of its ARTF budget to purchase fuel, and ensuring they meet their operational commitments. The fuel will be procured directly by USAID and delivered with the assistance of its contractors, circumventing reportedly corrupt

KABUL 00003085 002 OF 005

GIROA fuel procurement practices. At current fuel prices, the \$28 million fuel allotment will also help support the GIROA's 45 MW Kabul Northwest plant in the event its fuel supply is exhausted prior to commissioning of the more efficient 100 MW plant.

15. (SBU) The GIROA procures fuel for its power plants via the Fuel and Liquid Gas Enterprise (FLGE), a department of the Ministry of Commerce and Industry (MOCI). In 2007, an International Monetary Fund mission recommended that the government withdraw from the petroleum sector and privatize the FLGE by March 2009. The GIROA responded by pledging to increase the transparency of FLGE's fee structure and operations. Good intentions notwithstanding, press reports say the Central Audit and Oversight Committee of the Lower House of Parliament identified \$10 million worth of fuel procurement contracts that "lack transparency." Privatization of the FLGE, along with instituting proper fuel planning that takes into account oil price fluctuations, would help avoid another "fuel saga" next year.

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DELAYED LAUNCH OF USAID-FUNDED  
100MW KABUL POWER PLANT  
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16. (SBU) Non-performance of a principal civil works subcontractor has necessitated delay in the commissioning of the USAID-funded 100MW thermal electricity generating plant. Initial commercial operation of Blocks 1 and 2 (35 MW each) will not meet contractual milestone dates of December 2 and December 28, 2008, respectively. Nevertheless, all of the Block 1 equipment, including six diesel engines weighing over 80 metric tons each, and 80 percent of Block 2 equipment have been delivered to the site. Furthermore, much of the large-scale foundational and infrastructural work as well as camp accommodations for the 200+ expatriate construction management, security, and skilled labor personnel are finished or nearly complete.

17. (SBU) Intensive work is underway to recover from the costly setbacks. Testing and commissioning of the first block of six gensets are slated for early December. LBG/B&V JV will soon submit a revised detailed master project schedule. Interim dates for commercial operation of Blocks 1 and 2 totaling 70MW are January 18, 2009, and February 28, 2009, respectively, though partial

electricity generation to the grid may begin as early as mid-December.

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NEW PRESIDENTIAL DECREE - PRIVATE ENTERPRISE  
IN ENERGY PRODUCTION ENCOURAGED  
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¶8. (SBU) The Ministry of Energy and Water (MEW), with assistance from USAID, has successfully lobbied the GIROA to establish a power regulatory body in Afghanistan. President Karzai signed a decree in late September, authorizing the issuance of operating licenses for investments in the power sector. These licenses will cover the full spectrum of power supply operations, including but not limited to: power generation, transmission, distribution, power trading and other energy services.

¶9. (SBU) The operating licenses will be issued by a new Department of Regulatory Affairs (DRA) which will remain within the MEW until an independent regulator is established. The DRA will aim to promote private sector investment in Afghanistan's energy industry, giving commercial businesses the opportunity to develop and manage

KABUL 00003085 003 OF 005

the country's energy services, make the energy sector more efficient, and share expertise. The decree could smooth the entry of the Independent Power Producers (IPP) into the Afghanistan energy marketplace and legitimize entities currently operating as quasi-IPP's now.

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SOUTH EAST POWER SYSTEM (SEPS) KAJAKI HYDROPOWER  
PROJECT ENCOUNTERS A CONTRACTUAL ISSUE  
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¶10. (SBU) The successful delivery of key components of a new turbine generator (18 MW capacity) to the Kajaki Dam site by a large military convoy in August was a major milestone. However, rehabilitation work on the second of the two older turbines on the site (the first one is operational, delivering 16.5 MW) has been stalled. In late October, China Machine-Building International Corp. (CMIC), the partially state-owned Chinese company performing the rehabilitation work under sub-contract to LBG, was reportedly directed by the Chinese government to evacuate its five personnel from the Kajaki jobsite because the Chinese government had information regarding a Taliban threat to kidnap them. Despite LBG/B&V JV assurances to CMIC that all Kajaki site personnel are protected by a security force of some 150 private security and 250 British military personnel, CMIC personnel left the site on November 4, 2008. The site has not recently come under attack, and security experts consider the kidnapping threat to be virtually nil.

¶11. (SBU) Both LBG/B&V JV and Post are taking actions to effect a reversal of CMIC's decision. Ambassador Wood recently met with Chinese Ambassador to Afghanistan Yang Houlun to urge the Chinese government to permit CMIC to return to the site. Yang agreed to recommend to his government that CMIC be permitted to remobilize. More recently, Yang told Charge' Dell that Beijing supports restarting work, but the decision rests with CMIC. Yang urged USAID to re-engage with CMIC, a process which has begun. Alternative plans utilizing personnel from the U.S. vendor of the second turbine have been formulated in case CMIC does not return soon. LBG/B&V JV is optimistic that CMIC will return in time to complete the installation of the new (third) turbine (for which CMIC is the vendor) on schedule by December 2009, but is making contingency plans to complete the work without CMIC if necessary.

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NORTH EAST POWER SYSTEM - UZBEK COMPONENT,  
DELAY IN IMPORTING POWER  
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¶12. (U) Hopes for mitigating the winter fuel crunch were further dashed when recent developments pushed back the importation of 150 MW of power from Uzbekistan from January 2009 to May 2009. Popular conjecture attributes the delay to the historically difficult and

uneasy working relationship between the two countries. The GIROA also failed to make its first payment (\$10 million) for construction of the required 43 Km 220kV transmission line in Uzbekistan on time.

The payment has since been made and final payment of \$5 million will be due upon completion and commissioning of the line. The importation of Uzbek power under a Power Purchase Agreement will significantly increase low-cost electricity supply, thereby raising living standards and spurring economic growth.

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COMMERCIALIZATION OF DABM -  
DISAPPOINTING PROGRESS  
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KABUL 00003085 004 OF 005

¶13. (SBU) The effort to corporatize the public national electric utility DABM is inching forward. For the past few months Minister of Economy and utility CEO Shams has been soliciting applications from suitable Afghan candidates to serve in a Transition Management Unit (TMU) which will oversee the corporatization of DABM. In October the Minister remarked that corporatization attempts had been delayed by an internal GIROA row over the control of \$1.7 million of World Bank funds for initial operation of the TMU. However, recent mediation by the MOF has brokered an arrangement between MEW and DABM under which the World Bank funds will be freed up to launch the TMU in the near future.

¶14. (SBU) The slow pace of efforts to transform DABM is a source of frustration for the donor community as well as those GIROA officials who support commercialization of electricity distribution. A proposed USAID program will side-step the lack of progress by engaging an outside contractor to take over the operation and maintenance of the Kabul Electricity Department (KED) - DABM's largest division, serving the city of Kabul and distributing approximately 40 percent of DABM's total nationwide electricity generation to nearly one million consumers in the capital. Strong support for the KED commercialization project from the Ministers of Economy and Energy and Water has been secured, and USAID plans to start the procurement process for an operating contractor by end-2008.

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SHEBERGHAN GAS FIELDS TESTING - DELAY IN  
MOBILIZATION; OPIC PROPOSAL UPDATE  
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¶15. (SBU) ARAR, the Turkish/American contractor hired by USAID to test existing wells at Sheberghan, suffered additional delays in recent weeks. Slow issuance of valid Afghan multi-entry visas for workers along with poorer than expected infrastructure for transporting heavy equipment caused the delays. Full mobilization is now slated for early December with initial test results available by mid-January 2009 and final test results to be submitted by the end of April 2009.

¶16. (SBU) The test results are instrumental for an Overseas Private Investment Corporation (OPIC) proposal to develop an IPP (100 MW natural gas-fired power plant) at Sheberghan. ECONOFF recently met with the Norwegian aid agency (NORAD), which is assisting the Ministry of Mines in the promotion of gas fields adjacent to Sheberghan. They maintain that historical data (which will be confirmed by ARAR testing at Sheberghan) point to upwards of 3 billion cubic meters of gas in the adjacent wells. With few if any alternative uses of this gas, NORAD suggests that those gas resources be combined with Sheberghan to develop a larger IPP gas plant (600 MW vs. 100 MW).

¶17. (SBU) Minister Ahady met in mid-October with OPIC President Mosbacher in Washington to discuss the proposal for private investment in a 100 MW gas-fired plant at Sheberghan. Until recently, Minister Ahady had been cool to the idea of an IPP utilizing this gas. Minister Ahady requested the proposal be revised to reduce the proposed price of electricity from \$.08 per/KWH to \$.06 per/KWH - to better compete with the \$.04-\$.05/per KWH cost of imported power. Furthermore, he envisions a plant

capable of 200-250MW vs. 100 MW. Comment: Post hopes the momentum generated by this interaction will produce results, and will continue to facilitate communication between both parties. Also, USAID is in the final stages of recruiting a senior energy advisor

KABUL 00003085 005 OF 005

to support the design and implementation of IPP agreements.

WOOD